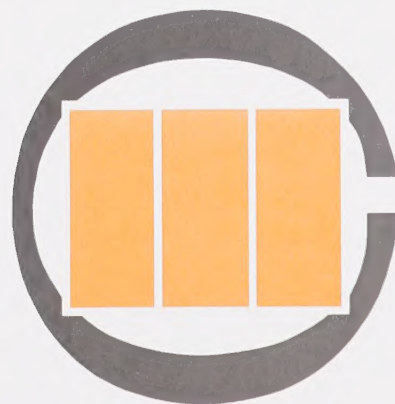


AR29

Canadian Manoir

Industries Limited

Annual Report 1978



DIRECTORS

H.L. BECK, Q.C.
Toronto, Ontario

S.G. BICKLEY
Montreal, Que.

J.S. BULL
Toronto, Ontario

GERALDINE CLEVER
Toronto, Ontario

G. GRAHAMSLAW
Toronto, Ontario

D.L. SINCLAIR
Toronto, Ontario

OFFICERS

GERALDINE CLEVER
Chairman of the Board

G. GRAHAMSLAW
President

J.D. BURTON
Vice-President
Manufacturing and Marketing

H.L. BECK, Q.C.
Secretary

AUDIT COMMITTEE

J.S. BULL
G. GRAHAMSLAW
D.L. SINCLAIR

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST
COMPANY — Toronto

BANKERS

THE TORONTO DOMINION BANK
Toronto

CHASE MANHATTAN BANK
New York

LAWYERS

DAVIES, WARD & BECK
Toronto

LAFLEUR, BROWN, DE GRANDPRÉ
Montreal

GUGGENHEIMER & UNTERMYER
New York

AUDITORS

ARTHUR ANDERSEN & CO.
Toronto

COMPANY PLANTS AND OFFICES

HEAD OFFICE

2 Glengrove Ave. West
Toronto, Ontario, M4R 1N4
(416) 487-5363

PLANTS

Mississauga, Ontario
Tilbury, Ontario
Waterford, Ontario
Woodbridge, Ontario

OFFICES

Montreal, Toronto, Chicago,
Los Angeles, New York

SHARES LISTED

TORONTO STOCK EXCHANGE

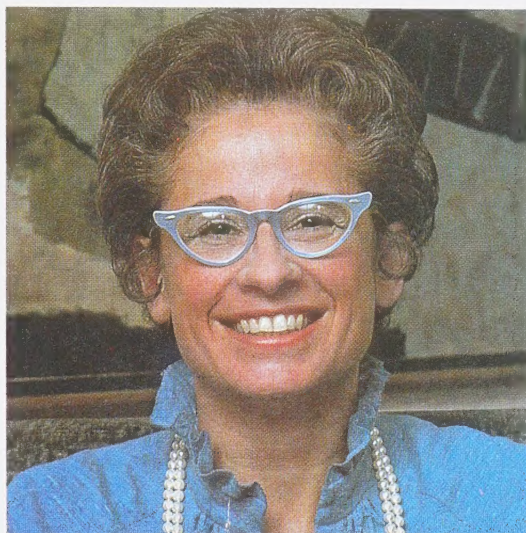
ANNUAL GENERAL MEETING

4:00 P.M. MONDAY, MAY 7, 1979
LIBRARY ROOM OF THE ROYAL
YORK HOTEL

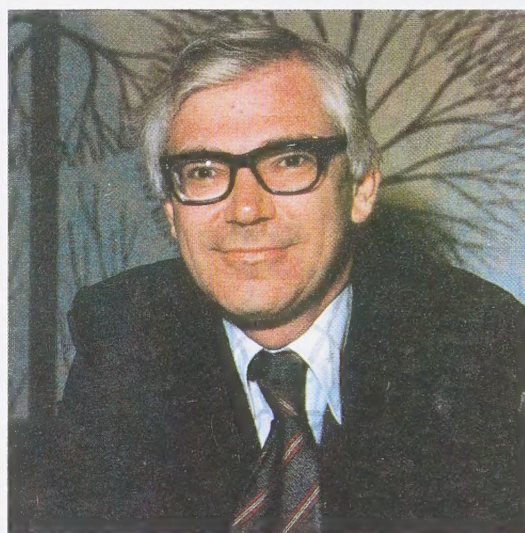
Financial Highlights

	Year ended December 31	
	1978	1977
Net Sales	\$41,371,906	\$35,786,342
Net Income	\$ 2,156,898	\$ 2,112,179
Per share	\$ 1.29	\$ 1.27
Cash dividends paid	\$ 566,570	\$ 510,777
Number of Shareholders	910	925
Number of shares outstanding	1,666,380	1,664,380
Number of people employed	478	441
Working Capital	\$ 9,517,773	\$ 9,237,704
Per share	\$ 5.71	\$ 5.55
Shareholders' Equity	\$13,697,581	\$12,100,053
Per share	\$ 8.22	\$ 7.27

Directors and Officers



GERALDINE CLEVER
Chairman of the Board



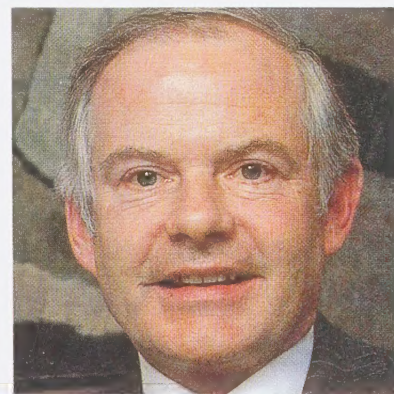
G. GRAHAMSLAW
President



D.L. SINCLAIR
Management Consultant



S.G. BICKLEY
Retired Manager of Corporate Credit
Toronto Dominion Bank



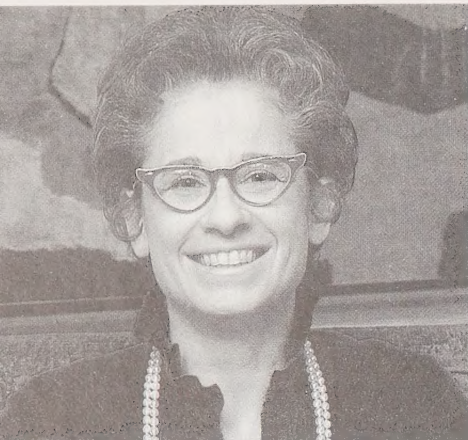
J.S. BULL
President Canada Dry Limited



H.L. BECK, Q.C.
Secretary; Senior Partner
Davies, Ward & Beck



J.D. BURTON
Vice-President
Manufacturing and Marketing



Message to Shareholders

Net income for the year increased slightly to \$2,156,898 from \$2,112,179 in 1977.

The level of net income in the early part of 1978 was lower than in the prior year and at June 1978 was 10% below that for the comparable period of 1977. However, income picked up in the latter half of the year and was 12% greater than in the same period of 1977.

The return on average Shareholders' Equity in 1978 amounted to 16.7%.

During the year, \$1,383,058 was spent on additions to property, plant and equipment and \$528,270 was invested in a joint venture (Oasis Air Conditioning Inc.). These outlays were financed by internally generated funds.

Tangible equity per share increased from \$7.27 to \$8.22 and working capital grew to \$9,517,773 or \$5.71 per share.

At a Special Shareholders' Meeting held in December, approval was given for a change in the authorized number of shares to 6,000,000 common shares from the prior authorized capital of 3,000,000 Class A or Class B common shares. Additionally \$4,000,000 of 1971 Capital Surplus on Hand was transferred from retained earnings to the paid in capital of the Company. These changes arose from a change in income tax legislation prohibiting the payment of tax-deferred dividends subsequent to December 31, 1978 of the type previously paid by the Company.

Manufacturing

Overall income for the manufacturing

group was slightly greater in 1978 compared to the previous year, and in spite of cost pressures and industry competitiveness it had satisfactory results.

During 1978, General Freezer installed modern sheet metal fabricating lines. These lines are completely automated and capable of handling prepainted steel with the highest levels of quality.

This equipment is presently the most efficient in Canada and capable of producing 800 units in one eight-hour shift. Our new foaming equipment, installed at the same time, is likewise the most up-to-date and efficient in North America at the present time.

During the year approximately \$225,000 was spent on research and development relating to the foam freezers which, in line with Company policy, was expensed.

Customer acceptance of the new models, including the 5 cubic foot freezer, the smallest manufactured in Canada, has been excellent.

Duo-Matic/Olsen had another successful year. During the year a number of new models of furnaces were introduced and others discontinued further rationalizing the product line. In addition design changes were made to other models to improve their efficiency and cost competitiveness.

All of our manufacturing companies have on-going programmes to improve the product and to reduce costs.

In August 1978, Duo-Matic/Olsen Inc. and Canadian Chromalox Company Limited, a subsidiary of Canadian Corporate Management Company Limited, formed a jointly owned concern, Oasis Air Conditioning Inc. Oasis acquired the operating assets and business of Canadian Chromalox's air-conditioning division to manufacture electric warm air furnaces, central air-conditioning units and other related cooling products.

Prior to the establishment of the joint venture, Duo-Matic/Olsen had been importing the major portion of its air-conditioning units from the United States.

Trading

Maso Import incurred a loss for the year, however, the last quarter was profitable providing promise for a better future for this operation. The sharp decline in the value of the Canadian dollar especially against the Japanese yen compounded Maso's problems during the year.

Sales of furnaces in the United States in 1978 were a disappointment in part due to more manufacturers entering the market and to a decline in overall industry sales.

Compressor sales however, both to original equipment manufacturers and wholesalers, continued strong in spite of cost pressures arising from the devaluation of the U.S. dollar compared to the Italian lira.

The equipment for the manufacture of condensing units in Chicago, to replace units imported from Italy, is now in place and sales will com-

mence in late March. This will complement our sales of compressors to wholesalers.

In April 1978, the Anti-Dumping Tribunal ruled that compressors imported from Italy have not caused, are not causing and are not likely to cause material injury to the production of compressors in Canada and accordingly the preliminary dumping assessment imposed in January 1978 was rescinded.

Service

The television film service group maintained its contribution to the overall net income despite the change in Canada in the industry pattern of copying television commercials on film to video-tape, a change which had earlier occurred in the United States.

Conclusion

The policy of your company is to aggressively pursue attractive growth opportunities providing a good return on invested capital.

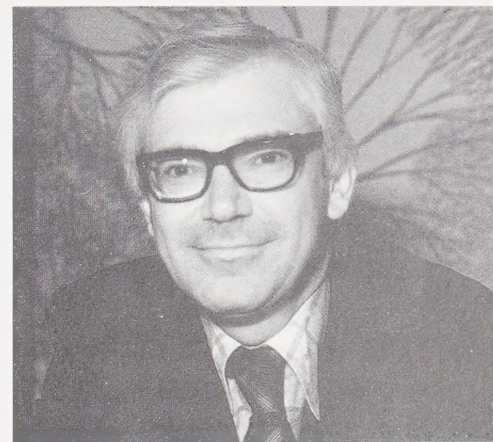
The Directors join us in acknowledging our appreciation of the challenges met and conquered by our fellow employees.

G. Clever *Gordon Grahamslaw*

Geraldine
Clever
Chairman

Gordon
Grahamslaw
President

Toronto, Ontario
March 13, 1979



Consolidated Statements of Income

For the years ended December 31, 1978 and 1977

	1978	1977
Net Sales (Note 7)	\$41,371,906	\$35,786,342
Cost of Sales	32,041,547	27,326,744
Gross Profit	\$ 9,330,359	\$ 8,459,598
Selling, General and Administrative Expenses	6,016,145	5,038,473
Income before provision for income taxes after depreciation and amortization of \$356,645 (1977 — \$352,817)	\$ 3,314,214	\$ 3,421,125
Provision for Income Taxes	1,270,316	1,378,496
Income before extraordinary item	\$ 2,043,898	\$ 2,042,629
Extraordinary Item (Note 4)	113,000	69,550
Net income for the year	\$ 2,156,898	\$ 2,112,179
Earnings per share before extraordinary item	\$ 1.23	\$ 1.23
Earnings per share after extraordinary item	\$ 1.29	\$ 1.27

The accompanying notes to consolidated financial statements are an integral part of these statements.

Auditors' Report

To the Shareholders of
Canadian Manoir Industries Limited

We have examined the consolidated balance sheets of CANADIAN MANOIR INDUSTRIES LIMITED (incorporated under the Canada Corporations Act) AND SUBSIDIARIES as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Canadian Manoir Industries Limited and Subsidiaries as of December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Signed: ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

Toronto, Ontario
February 16, 1979

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1978 and 1977

	1978	1977
Working capital, beginning of year	\$ 9,237,704	\$ 7,893,151
Source of Funds:		
Operations —		
Income before extraordinary item	\$ 2,043,898	\$ 2,042,629
Items not affecting funds —		
Depreciation and amortization	356,645	352,817
Increase (decrease) in deferred income taxes	237,224	(23,200)
	\$ 2,637,767	\$ 2,372,246
Reduction of income taxes arising from losses carried forward (Note 4)	113,000	—
Disposition of subsidiary, net of funds of subsidiary sold	—	223,894
Issue of common shares	7,200	720
	\$ 2,757,967	\$ 2,596,860
Application of Funds:		
Additions to property, plant and equipment, net	\$ 1,383,058	\$ 437,647
Investment in corporate joint venture	528,270	—
Decrease in long-term debt	—	304,000
Taxable and tax-deferred dividends	566,570	510,660
	\$ 2,477,898	\$ 1,252,307
Increase in working capital	\$ 280,069	\$ 1,344,553
Working capital, end of year	\$ 9,517,773	\$ 9,237,704

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Balance Sheets

December 31, 1978 and 1977

Assets

Current Assets:

	1978	1977
Cash and deposit receipts	\$ 1,964,686	\$ 382,860
Receivables (Note 2)	5,179,251	5,101,468
Inventories (Note 2)	13,553,769	8,966,386
Prepaid expenses	184,279	222,865
Total current assets	<u>\$20,881,985</u>	<u>\$14,673,579</u>

Investment in Corporate Joint Venture	<u>\$ 528,270</u>	<u>\$ —</u>
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Property, Plant and Equipment, at cost (Note 2):

Land	\$ 90,745	\$ 90,745
Buildings	2,650,251	2,630,093
Equipment	4,212,064	2,877,003
Leasehold improvements	119,122	91,283
	<u>\$ 7,072,182</u>	<u>\$ 5,689,124</u>
Less — Accumulated depreciation and amortization	2,987,620	2,630,975
	<u>\$ 4,084,562</u>	<u>\$ 3,058,149</u>
	<u>\$25,494,817</u>	<u>\$17,731,728</u>

Approved by the Board:

(Signed) G. Clever, Director

(Signed) D.L. Sinclair, Director

Liabilities

Current Liabilities:

	1978	1977
Bank advances (Note 2)	\$ 2,330,083	\$ 908,314
Payables and accrued liabilities	8,470,328	3,943,507
Income taxes	563,801	584,054
Total current liabilities	\$11,364,212	\$ 5,435,875

Deferred Income Taxes	433,024	195,800
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Shareholders' Equity, per accompanying statements	13,697,581	12,100,053
	\$25,494,817	\$17,731,728

Tangible equity per issued common share	\$ 8.22	\$ 7.27
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The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1978 and 1977

	1978	1977
Capital Stock:		
Authorized (Note 3):		
Issued —		
Balance, beginning of year — 1,664,380 shares (1977 — 1,664,180)	\$ 1,665,660	\$ 1,664,940
Issued during the year — 2,000 shares (1977 — 200)	7,200	720
Transfer from retained earnings (Note 3)	4,000,000	—
Balance, end of year — 1,666,380 shares (1977 — 1,664,380)	\$ 5,672,860	\$ 1,665,660
Contributed Surplus	\$ 97,524	\$ 97,524
Retained Earnings:		
Balance, beginning of year	\$10,336,869	\$ 8,735,350
Add — Net income for the year	2,156,898	2,112,179
	\$12,493,767	\$10,847,529
Deduct —		
Tax-deferred dividends (1978 — 34¢; 1977 — 29.9¢)	\$ 367,714	\$ 312,090
Taxable dividends (1978 — 34¢; 1977 — 34¢)	198,856	198,570
	\$ 566,570	\$ 510,660
Transfer to capital stock (Note 3)	4,000,000	—
	\$ 4,566,570	\$ 510,660
Balance, end of year	\$ 7,927,197	\$10,336,869
Shareholders' Equity	\$13,697,581	\$12,100,053

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

1. Significant Accounting Policies and Practices

(a) Principles of Consolidation

The financial statements of Canadian Manoir Industries Limited (the "Company") are consolidated with those of its subsidiaries. All significant inter-company transactions have been eliminated in the consolidated financial statements.

(b) Translation

The accounts of the Company's U.S. subsidiaries are translated into Canadian dollars on the following basis:

- 1) Current assets and current liabilities at the year-end rate of exchange.
- 2) Fixed assets (and related depreciation) at the approximate rate of exchange when the assets were acquired.
- 3) Revenues and expenses at the average rate of exchange for the year.

(c) Inventories

Inventories are valued at the lower of first-in, first-out cost or net realizable value.

(d) Depreciation and Amortization

Depreciation is provided using the straight-line method based on the expected average useful lives of the buildings and equipment. Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases.

(e) Income Taxes

Income taxes are provided for on the basis of accounting income. Timing differences between accounting income and taxable income are reflected in Deferred Income Taxes. The Company accrues for withholding tax on foreign income as earned.

(f) Earnings per Share

The earnings per share calculations are based on the weighted average of common shares outstanding at the end of each month during the years.

(g) Corporate Joint Ventures

Joint ventures are accounted for by the equity method.

2. Bank Advances

The Company's operating line of credit of \$5,000,000 (1977 — \$4,750,000), bearing interest at the prime rate, is secured by certain receivables and inventories. The Company has agreed not to hypothecate the property, plant and equipment of the Company and of certain of its subsidiaries without formal approval of the bank.

3. Capital Stock

Pursuant to Supplementary Letters Patent dated December 19, 1978:

- (a) The authorized capital of the Company was changed to 6,000,000 common shares without nominal or par value from the prior authorized capital of 3,000,000 Class A or Class B Common Shares without nominal or par value.
- (b) \$4,000,000 of 1971 Capital Surplus on Hand, as defined by the Income Tax Act, was transferred from retained earnings to the capital account of the Company.

4. Extraordinary Items

In 1978, a subsidiary recognized a reduction of income taxes of \$113,000 resulting from application of losses carried forward.

In 1977, the Company sold a subsidiary and realized a non-taxable gain of \$69,550.

5. Employee Benefit Plans

(a) Stock Option Plan

As of December 31, 1978 no common shares (1977 — 2,000 at \$3.60 per share) were reserved under a stock option plan for certain officers and employees of the Company and its subsidiaries. During 1978, 2,000 (1977 — 200) optioned shares were issued for a cash consideration of \$7,200 (1977 — \$720) and no (1977 — 3,500) optioned shares were cancelled.

(b) Retirement Plan

The Company has a contributory retirement plan for certain officers and employees of the Company and its subsidiaries. In 1978 a provision of \$31,330 (1977 — \$27,666) was made for the current cost of the plan. As of December 31, 1978 and 1977 there was no unfunded past service liability with respect to the plan.

6. Commitments and Contingencies

(a) The Company and its subsidiaries have aggregate commitments of approximately \$850,000 extending through 1984, relating to leases of premises and equipment. The amount payable under these commitments in 1979 is \$210,000.

(b) As of December 31, 1978, lawsuits arising in the ordinary course of business were pending against the Company and its subsidiaries. Based on advice of counsel retained to represent the Company and its subsidiaries, management believes that the ultimate resolution of these matters will not have a material effect on the Company's consolidated financial position.

7. Net Sales

Consolidated net sales are generated by the following activities:

	1978	1977
Manufacturing	52%	59%
Trading	41	34
Service	7	7
	<u>100%</u>	<u>100%</u>

8. Remuneration of Directors and Officers

In 1978 the Company paid \$12,900 to six directors, as directors, and \$377,008 to six officers, as officers, three of whom are directors.

CANADIAN MANOIR INDUSTRIES LIMITED
and subsidiary companies
CONDENSED FINANCIAL SUMMARY

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Operating Data										
(in thousands of dollars)										
Net Sales	41,372	35,786	33,301	35,034	34,704	25,664	15,774	12,809	11,964	10,151
Income before income taxes	3,314	3,421	4,124	4,760	4,501	2,886	1,853	1,640	1,545	1,225
Net Income	2,157	2,112	2,250	2,636	2,332	1,549	967	819	748	648
Cash dividends	567	511	526	412	331	300	6	7	15	31
Stock dividends*	—	—	—	—	—	—	—	675	—	—
Retained for growth	1,590	1,601	1,724	2,224	2,001	1,249	961	137	733	617
Net income per share	1.29	1.27	1.35	1.59	1.41	0.94	0.59	0.50	0.45	0.38
Year end financial position										
(in thousands of dollars)										
Working capital	9,518	9,238	7,893	6,039	5,251	3,793	2,834	2,452	1,928	1,688
Fixed assets net of depreciation	4,085	3,058	3,175	3,251	2,553	2,400	1,346	1,284	1,400	970
Total assets	25,395	17,732	16,414	20,104	15,706	12,675	6,242	5,941	5,628	4,388
Long-term debt	—	—	304	2,416	1,152	1,576	240	320	337	364
Shareholders' equity	13,698	12,100	10,498	8,757	6,524	4,519	3,829	3,357	2,923	2,306
Shareholders' equity per share	8.22	7.27	6.31	5.28	3.95	2.74	2.33	1.74	1.67	1.20

* The stock dividends were redeemed for cash in 1972

Canadian Manoir Industries Limited

Principal Subsidiaries and Divisions

MANUFACTURING GROUP

Duo-Matic/Olsen Inc.

Duo-Matic division

Manufacturer of oil, gas, electric, wood and coal furnaces

105 Concession Road

P.O. Box 610

Waterford, Ontario N0E 1Y0 (519) 443-8688

Olsen division

Manufacturer of oil, gas, wood and coal furnaces and distributor of air-conditioning units

Louise and Lyon Streets

Highway 2

Tilbury, Ontario N0P 2L0 (519) 682-2062

General Freezer Limited

Manufacturer of residential freezers and dehumidifiers and distributor of refrigerators, electric ranges, dishwashers, microwave ovens and automatic washers and dryers

9230 Islington Avenue North

P.O. Box 600

Woodbridge, Ontario L4L 1B3 (416) 851-2861

Oasis Air Conditioning Inc.

Manufacturer of air-conditioning units and electric warm air furnaces

2600 Drew Road

Mississauga, Ontario L4T 3M5 (416) 678-7300

TRADING GROUP

Manoir International (Canada) Ltd.

Distributor of hermetically sealed compressors

8499 Devonshire Place

Montreal, Quebec H4P 2K1 (514) 731-6416

Manoir International, Inc.

Distributor of hermetically sealed compressors, distributor of wood and coal burning furnaces and manufacturer of condensing units

450 West 169th Street

South Holland

Illinois 60473 (312) 596-7700

Maso Import

Distributor of giftware, ceramics, gourmet cooking items and other related products

8499 Devonshire Place

Montreal, Quebec H4P 2K1 (514) 731-9431

SERVICE GROUP

Audio Image Communications

Producer of audio-visual slide presentations

49 Jackes Avenue

Toronto, Ontario M4T 2P9 (416) 961-6116

Comprehensive Distributors

Distributor of television commercials

49 Jackes Avenue

Toronto, Ontario M4T 2P9 (416) 961-1110

Plaza 1 Level

Place du Canada

Montreal, Quebec H3B 2N2 (514) 861-8475

Teleprint of Los Angeles, Inc.

Distributor of television commercials

6573 Hollywood Boulevard

Hollywood, California 90028 (213) 464-7221

Teleprint of New York, Inc.

Distributor of television commercials

1500 Broadway Avenue

New York, New York 10036 (212) 869-8563



Duo-Matic/Olsen Inc.



Oasis Air Conditioning Inc.



Manoir International



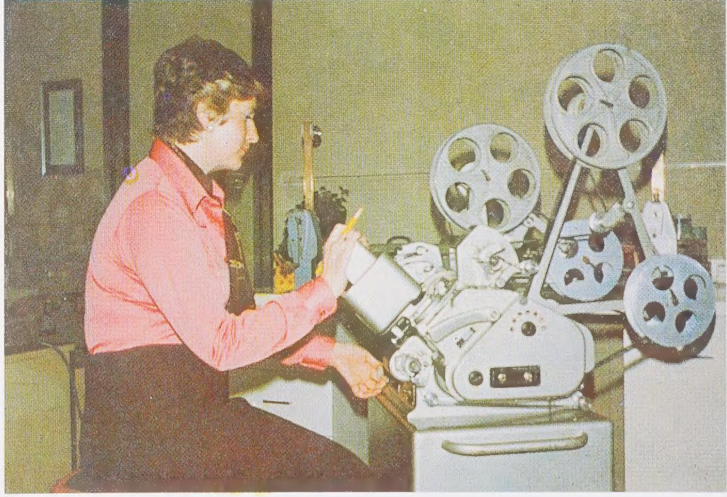
General Freezer Limited



Maso Import



Audio Image Communications



Comprehensive Distributors/Teleprint

